

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**PROCESSING DOD THRIFT SAVINGS
PLAN CONTRIBUTIONS**

Report No. 96-146

June 6, 1996

19991202 156

Department of Defense

DTIC QUALITY INSPECTED 4

DISTRIBUTION STATEMENT A

Approved for Public Release

Distribution Unlimited

AAI00-02-0576

Additional Copies

To obtain additional copies of this audit report, contact the Secondary Reports Distribution Unit of the Analysis, Planning, and Technical Support Directorate at (703) 604-8937 (DSN 664-8937) or FAX (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Planning and Coordination Branch of the Analysis, Planning, and Technical Support Directorate at (703) 604-8939 (DSN 664-8939) or FAX (703) 604-8932. Ideas and requests can also be mailed to:

OAIG-AUD (ATTN: APTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

Defense Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@DODIG.OSD.MIL; or by writing to the Defense Hotline, the Pentagon, Washington, DC 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

| | |
|------|----------------------------------------|
| AFB | Air Force Base |
| DFAS | Defense Finance and Accounting Service |
| NFC | National Finance Center |
| TSP | Thrift Savings Plan |



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884



June 6, 1996

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Audit Report on Processing DoD Thrift Savings Plan Contributions
(Report No. 96-146)

Introduction

The Thrift Savings Plan (TSP) is a tax-deferred retirement savings plan for Federal employees and is similar to a corporate 401(k) plan. Employees covered by the Civil Service Retirement System and the Federal Employees' Retirement System contribute to the TSP. The Thrift Savings Fund has grown annually since it was established in 1987; as of January 31, 1996, it contained \$36 billion. The Defense Finance and Accounting Service (DFAS) manages DoD participants' contributions to the TSP. This part of our audit focused on the processing of individual contributions to the TSP at two DFAS payroll offices at the DFAS Columbus Center, Columbus, Ohio, and Bolling Air Force Base (AFB), Washington, D.C.

Results of Audit

Payroll offices at the DFAS Columbus Center and Bolling AFB transmitted participants' contributions to the TSP within prescribed time limits in more than 99.9 percent of the cases we examined. The two offices also took appropriate actions to ensure that earnings lost because of delayed contributions were credited to participants' accounts. We identified no material management control weaknesses at either payroll office. The audit results are not necessarily indicative of TSP operations at other DFAS payroll offices, or the efficiency of TSP operations DoD-wide.

Audit Objectives

The audit objectives were to determine whether TSP operations at the two DFAS payroll offices complied with TSP regulations. Specifically, we determined whether TSP contributions were processed on time, and whether lost

earnings were paid when contributions were not made on time, as required by TSP regulations. We also evaluated the adequacy of the management control program as it applied to the audit objectives.

Scope and Methodology

Scope and Methodology. We reviewed the policies and procedures at the DFAS Columbus Center and Bolling AFB civilian payroll offices for compliance with applicable laws and TSP regulations. We also reviewed all data on the TSP contributions transmitted from the DFAS Columbus Center and Bolling AFB payroll offices during the final 13 pay periods of calendar year 1995. The audit focused on the payroll offices at DFAS Columbus Center and Bolling AFB. The audit results do not address the processing of TSP contributions at other DFAS payroll offices.

Audit Period, Standards, and Locations. This economy and efficiency audit was performed from January through March 1996 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We included such tests of management controls as were considered necessary. To conduct the audit, we relied on data processed by DFAS and TSP computer systems. We performed limited tests on the reliability of these data by comparing calculations of individual contributions to the computer-processed TSP data. Enclosure 2 lists the organizations we visited or contacted.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of management controls over the ability of the DFAS Columbus Center and Bolling AFB payroll offices to provide the U.S. Department of Agriculture's National Finance Center (NFC), New Orleans, Louisiana, with participants' contributions. We evaluated controls over the reconciliation of rejected deposits and controls to ensure that earnings lost because of untimely or inaccurate payroll actions were credited to participants' accounts. Since we found no material weaknesses, we did not assess management's self-evaluation.

Adequacy of Management Controls. At the two locations, management controls over the TSP were adequate; we identified no material management control weaknesses.

Prior Audits and Other Reviews

The U.S. Department of Labor, Pension and Welfare Benefits Administration, and KPMG Peat Marwick LLP conducted a joint audit of the TSP in December 1994. Enclosure 1 summarizes the results of that audit.

Background

At the time of our audit, DFAS managed the Defense Civilian Pay System (DCPS), which contained the payroll records of 502,000 of the 829,000 DoD employees. Also, DFAS managed 69 payroll offices that were not yet incorporated into the DCPS. Those 69 offices maintained the records for the remaining 327,000 employees. Each payroll office processed TSP contributions. DFAS has begun an initiative to consolidate all DoD payroll offices under DCPS.

The NFC, under the terms of an agreement with the Federal Retirement Thrift Investment Board, provides DoD and all other Federal agencies with recordkeeping services for the TSP. Although the NFC maintains the TSP accounts, each participant's payroll office is responsible for sending contribution information to the NFC.

If a discrepancy exists between the NFC records and pay records that the DFAS payroll offices submit to the NFC, the pay record is rejected and contributions and loan allotments are not processed for that individual. The NFC sends a reject listing to the payroll office for correction. Reject listings show the amounts transmitted, accepted, and rejected. The amounts rejected are shown on the "Delete Report" and the "Employee Detail Data Reject Report" with an explanation of the rejection. The payroll office then researches the rejections and resubmits them to the NFC. Also, when a payment is rejected, the payroll office must submit a request for the payment of any lost earnings. The timekeeper at the NFC calculates and posts the lost earnings.

Title 5, Code of Federal Regulations, section 1606.4(d)(2), states that participants are not entitled to receive lost earnings on a TSP contribution unless the contribution is made more than 30 days after the pay date and the value of the lost earnings is greater than \$1.00.

Discussion

Payroll offices at the DFAS Columbus Center and Bolling AFB processed TSP contributions within the prescribed time limits in more than 99.9 percent of the cases we examined, and contributions were made in accordance with established policies and procedures. Although rejected contributions were not always

reconciled within prescribed time limits, the two payroll offices took appropriate actions to ensure that earnings lost because of any delayed contributions were credited to participants' accounts.

DFAS Columbus Center's Processing of TSP Contributions. The payroll office at DFAS Columbus Center processed 108,000 of DoD's 829,000 pay accounts using the Defense Business Management System. The pay accounts were maintained on three data bases. We reviewed the largest data base, which contained an average of 45,864 pay accounts and accounted for about \$5 million in TSP contributions collected each pay period.

The following table shows the results of our analysis of TSP contributions for the last 13 pay periods of calendar year 1995.

**Table 1. Analysis of TSP Contributions at
DFAS Columbus Payroll Office**

| <u>Pay Period</u> <u>Ending</u> | <u>Total</u> <u>Contributions</u> <u>(millions)</u> | <u>Amount</u> <u>Rejected</u> |
|------------------------------------|-----------------------------------------------------------|----------------------------------|
| June 30, 1995 | \$ 4.94 | \$ 1,072 (.02 percent*) |
| July 14, 1995 | 4.88 | 1,097 (.02) |
| July 28, 1995 | 4.91 | 1,422 (.03) |
| August 11, 1995 | 4.96 | 1,845 (.04) |
| August 25, 1995 | 4.97 | 1,536 (.03) |
| September 8, 1995 | 4.97 | 1,170 (.02) |
| September 22, 1995 | 4.96 | 1,987 (.04) |
| October 6, 1995 | 4.95 | 1,293 (.03) |
| October 20, 1995 | 4.94 | 4,474 (.09) |
| November 3, 1995 | 4.93 | 582 (.01) |
| November 17, 1995 | 4.90 | 604 (.01) |
| December 1, 1995 | 4.90 | 658 (.01) |
| December 15, 1995 | <u>4.90</u> | <u>855</u> (.02) |
| Totals | \$64.12 | \$18,595 |

*Percentage of total rejected.

As shown, only .03 of 1 percent of the amount of TSP contributions was rejected each pay period.

When contributions were rejected, an average of 53 days elapsed before the contributions were resubmitted and accepted by the NFC. Although 53 days exceeded the 30-day time limit established by DFAS, we did not consider this a material weakness because the number of rejections was very low, which indicated accurate processing. We verified that the payroll office ensured that requests were submitted to the NFC to credit participants' accounts for lost earnings.

Bolling AFB Processing of TSP Contributions. The Bolling AFB payroll office processes 11,200 of the 829,000 DoD pay accounts using the Air Force Standard Civilian Pay System. Our analysis of TSP contributions for the last 13 pay periods of calendar year 1995 follows.

**Table 2. Analysis of TSP Contributions at
Bolling Air Force Base Payroll Office**

| <u>Pay Period</u> <u>Ending</u> | <u>Total</u> <u>Contributions</u> <u>(millions)</u> | <u>Amount</u> <u>Rejected</u> |
|------------------------------------|-----------------------------------------------------------|----------------------------------|
| July 14, 1995 | \$ 1.11 | \$ 1,086 (.10 percent*) |
| July 28, 1995 | 1.15 | 384 (.03) |
| August 11, 1995 | 1.16 | 623 (.05) |
| August 25, 1995 | 1.17 | 1,749 (.15) |
| September 8, 1995 | 1.17 | 1,538 (.13) |
| September 22, 1995 | 1.18 | 94 (.01) |
| October 6, 1995 | 1.19 | 1,569 (.13) |
| October 20, 1995 | 1.62 | 1,513 (.09) |
| November 3, 1995 | 1.62 | 2,660 (.16) |
| November 17, 1995 | 1.63 | 2,433 (.15) |
| December 1, 1995 | 1.62 | 23 (.00) |
| December 15, 1995 | 1.62 | 298 (.02) |
| December 29, 1995 | <u>1.59</u> | <u>2,156</u> (.14) |
| Totals | \$17.83 | \$16,127 |

*Percentage of total rejected.

An average of only .09 of 1 percent of the amount of TSP contributions was rejected each pay period. The payroll office at Bolling AFB averaged more than 41 days to process rejected contributions. However, we did not consider this a material weakness because the number of rejections was very low, and the Bolling AFB payroll office credited participants' accounts for any lost earnings.

Summary

Payroll offices at the DFAS Columbus Center and Bolling AFB processed TSP contributions promptly and accurately during the last 13 pay periods of calendar year 1995. With only minor delays, both payroll offices reconciled rejected contributions and provided for the payment of any lost earnings in accordance with policies and procedures.

Management Comments and Audit Response

Although no comments were required, the Deputy Director for Finance, Defense Finance and Accounting Service, provided comments on May 18, 1996. The Deputy Director for Finance requested that we revise the Background section of the report to reflect DFAS initiatives to consolidate the DoD payroll offices into one standard payroll system. We have revised the report based on the DFAS comments.

We appreciate the courtesies extended to the audit staff. Questions about this audit should be directed to Mr. James L. Kornides, Audit Program Director, or Mr. John K. Issel, Audit Project Manager, at (614) 751-1400. If management requests, we will provide a formal briefing on the audit results. See Enclosure 3 for the report distribution. The audit team members are listed inside the back cover.



Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosures

Summary of Prior Audits and Other Reviews

During the previous 5 years, one audit of the TSP has been performed.

On December 9, 1994, the U.S. Department of Labor, Pension and Welfare Benefits Administration, and KPMG Peat Marwick LLP issued a joint audit report, "Full-Scope Fiduciary Compliance Audit of the Thrift Savings Plan Operations at the Defense Finance and Accounting Service Columbus, Ohio, and Defense Logistics Agency."

The report stated that the TSP policies and procedures at the DFAS Columbus Center and the Defense Logistics Agency complied with the Federal Employees' Retirement System Act and the Federal Retirement Thrift Investment Board's regulations. The report also stated that TSP contributions were being processed in an accurate and timely manner.

The auditors found that the DFAS Columbus Center payroll office did not maintain sufficient written documentation of procedures for processing TSP transactions, and did not maintain a log to indicate the date that each "Delete Report" and "Employee Detail Data Reject Report" were received from the TSP recordkeeper and the date that corrections were submitted. The report recommended that proper documentation be maintained. DFAS Columbus Center and the Defense Logistics Agency concurred with and implemented the recommendations.

Enclosure 1

Organizations Visited or Contacted

Defense Organizations

Defense Finance and Accounting Service, Washington, DC
Defense Finance and Accounting Service Columbus Center, Columbus, OH
Defense Finance and Accounting Service Denver Center, Denver, CO
Bolling Air Force Base Payroll Office, Washington, DC

Non-Defense Federal Organizations

Federal Retirement Thrift Investment Board, Washington, DC
U.S. Department of Agriculture
National Finance Center, New Orleans, Louisiana

Enclosure 2

Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Defense Agencies

Director, Defense Finance and Accounting Service
Director, DFAS Columbus Center, Columbus, OH
Director, Bolling Air Force Base Payroll Office, Washington, DC

Non-Defense Federal Organizations

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
General Accounting Office

Non-Defense Federal Organizations (cont'd)

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

MAY -8 1996

DFAS-HQ/FMP

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF
DEFENSE

SUBJECT: Response to DoDIG Draft Report, "Processing DoD Thrift
Savings Plan Contributions," Dated April 15, 1996
(Project No. 5PJ-2010.02)

We have reviewed the draft Report, "Processing DoD Thrift
Savings Plan Contributions." Even though there are no findings
or recommendations, we are providing comments on the Background.

The first paragraph under Background should be modified to
reflect the Defense Finance and Accounting Service initiative to
consolidate DoD payroll offices to one standard payroll system,
the Defense Civilian Pay System. The system will be operational
at Charleston, South Carolina; Denver, Colorado; Omaha, Nebraska;
and Pensacola, Florida. There were originally 351 payroll
offices within DoD. As of the end of April 1996 we have
converted the records of 282 of these payroll offices and
maintain the payroll records for 502,000 DoD employees on DCPS
today. The remaining 69 payroll offices will be consolidated
onto DCPS over the next several years.

If you have any questions on this matter, please contact
Ms. Susan Eldridge at (703) 607-5025.

Edward T. Scares
for Roger W. Scares
Brigadier General, USA
Deputy Director for Finance

cc: DFAS-HQ/PA

Enclosure 4

Audit Team Members

This report was prepared by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD.

F. Jay Lane
James L. Kornides
John K. Issel
Melissa A. Sikora
Melanie S. Steel
Susanne B. Allen

INTERNET DOCUMENT INFORMATION FORM

A . Report Title: Processing DOD Thrift Savings Plan Contributions

B. DATE Report Downloaded From the Internet: 12/01/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #):
OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ Preparation Date 12/01/99

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.